Nuclear Deal Fallout: The Global Threat of Iran

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Chairman Poe, Ranking Member Keating, distinguished members of the Subcommittee:

It is a privilege to appear before you today to discuss the strategic effects of the 2015 nuclear deal between Iran and the P5+1 powers, formally known as the Joint Comprehensive Plan of Action (JCPOA). More than a year after its implementation, the effects of that agreement have been profound—and profoundly negative for the stability of the Middle East, as well as for American interests there.

**Fruits of the Nuclear Deal**

From the start, the accord concluded between Iran and the P5+1 was intended to be tactical in nature, focusing on just one aspect of the Iranian regime's rogue behavior: its persistent nuclear ambitions. However, the benefits that have been conferred to Iran as a result have been both extensive and strategic in nature.

Most directly, as a core condition of the JCPOA, the United States and its partners in the P5+1 agreed to release to Iran some $100 billion or more in previously escrowed oil revenue. For Iran, this represents an enormous windfall, amounting to roughly a quarter of its annual GDP, which totaled $415 billion in 2014.\(^1\) By way of comparison, that sum nearly rivals the entirety of the European Recovery Program (colloquially known as the Marshall Plan) launched by the Truman administration in 1948 in the aftermath of World War II—an initiative that disbursed more than $13 billion (roughly $130 billion in today's dollars) to seventeen countries in Europe over the span of four years. As of “Implementation Day” (January 16, 2016), the Islamic Republic has complete, unencumbered access to these funds.

This direct benefit, moreover, has been amplified by a range of other measures, such as the reintegration of Iran into global markets via mechanisms like the electronic payment system run by the Society for Worldwide Interbank Financial Telecommunications (SWIFT),\(^2\) as well as by the easing of multilateral restrictions on international involvement in Iran's economic sector. The cumulative impact has been profound; Iran's economy, which was teetering on the brink of collapse in the Fall of 2013, is now on a path of sustained growth, according to the estimates of international financial institutions such as the International Monetary Fund and World Bank.\(^3\)

Notably, however, this newfound prosperity has not trickled down to the average Iranian. A January 2017 survey of Iranian public opinion conducted by the Center for International Security Studies at the University of Maryland found a broad consensus among respondents that, a year on, “there have been no improvements in people's living conditions as a result of the nuclear deal.”\(^4\) This, in turn, has

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led to declining enthusiasm for the nuclear deal within Iranian society, and helped make the agreement a significant political issue in the country’s most recent presidential contest, which concluded in recent days.\(^5\)

Nor has the agreement yielded a fundamental change in Iran’s political outlook. Contrary to the fervent wishes of the Obama administration, the JCPOA did not foster a kinder, gentler polity within the Islamic Republic. While the Obama White House lobbied heavily in favor of the agreement based on the argument that it would help empower moderate forces within Iran,\(^6\) nothing of the sort has happened. Instead, last summer’s elections for Iran’s parliament, or majles, saw a resounding reaffirmation of the conservative status quo in Iranian politics.\(^7\) So the situation has remained, notwithstanding the electoral victory of incumbent President Hassan Rouhani in last week’s presidential run-off.

What the JCPOA has succeeded in doing, however, is reinvigorating the global ambitions of the Iranian regime. After laboring for years under international sanctions and with limited means to make its foreign policy vision a reality, the Islamic Republic is now in the throes of a landmark expansion of both its regional activities and its strategic capabilities.

- Long moribund as a result of international sanctions, the Iranian regime’s military modernization efforts have now shifted into high gear. In June of 2015, ahead of the formal conclusion of the JCPOA, Iranian Supreme Leader Ali Khamenei formally unveiled his government’s Sixth Development Plan, which outlines its intent to expand the national defense budget (then at $14 billion) by nearly a third, to five percent of total GDP—\(^8\) a surge predicated entirely on Iran’s ability to access additional resources as a result of the nuclear deal. Since then, Tehran has concluded tens of billions of dollars in new accords for military hardware and materiel with both Russia and China.\(^9\) Over time, this drive can be expected to significantly expand the Iranian regime’s strategic capabilities, as well as the potential threat that it can pose to U.S. and allied forces in the Middle Eastern theater.

- While not yet a first-tier cyber power like Russia and China, Iran is nonetheless fast emerging as a significant threat actor in cyberspace. Over the past several years, the Iranian regime has made the strengthening of its cyber capabilities a major priority. The results have been visible in a spate of high-profile cyber attacks against both U.S. and international targets carried out by the regime and affiliated actors over the past half-decade. And while such instances have declined since the signing of the JCPOA (reflecting Iran’s satisfaction with the terms of the agreement), the Iranian regime

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is nonetheless making major investments in its cyber capabilities. Since 2013, Iran is estimated to have increased its overall cybersecurity spending twelve-fold,\textsuperscript{10} with the IRGC now boasting an annual cyber budget of nearly $20 million.\textsuperscript{11} This surge accurately reflects the Islamic Republic’s interest in the exploitation of cyberspace for both defensive and offensive purposes—a maturing capability that could be used against the United States and allied nations in the event of a conflict.

• Since the start of the Syrian civil war in 2011, Iran has emerged as a key player in that conflict, providing extensive arms, training and materiel to the regime of Syrian dictator Bashar al-Assad. More recently, the Islamic Republic has become a major conduit for foreign fighters as well. Working together with its Lebanese proxy, Hezbollah, the Iranian regime has played a key role in organizing pro-Assad militias among the country’s Alawite and Shi’a communities, as well as coordinating pro-regime foreign fighters from Iraq, Yemen, Lebanon and Afghanistan.\textsuperscript{12} As of January 2017, this secondary, state-directed foreign fighter stream was estimated to number as many as 20,000 “volunteers.”\textsuperscript{13}

• Iran’s activism elsewhere in the region has surged as well. In Yemen, the Islamic Republic has emerged as a significant source of support for the country’s Houthi rebels, providing vital weaponry as well as sustained logistical, political, and financial support to the rebellion.\textsuperscript{14} This assistance was crucial to the Fall 2014 Houthi takeover of portions of the Yemeni capital, Sana’a, and their consolidation of power (and periodic targeting of Western interests) since. In Iraq as well, Iran’s historic asymmetric strategy—pursued since 2003 and intended “to limit American power-projection capability in the Middle East, ensure the Iraqi government does not pose a threat to Iran, and build a reliable platform for projecting influence further abroad”\textsuperscript{15}—has expanded significantly. In response to the rise of the Islamic State terrorist group (ISIS), the Islamic Republic has commenced a major mobilization, providing both arms and advisors to Kurdish peshmerga guerrillas battling ISIS in northern Iraq,\textsuperscript{16} and sending detachments of its Revolutionary Guards to fight the group on Iraqi soil.\textsuperscript{17} It has also organized and deployed some 40 Iraqi Shi’a militias against ISIS.\textsuperscript{18} Pursuant to a


\textsuperscript{13} See, for example, Ahmad Majidyar, “Iran Recruits and Trains Large Numbers of Afghan and Pakistani Shiites,” Middle East Institute, January 18, 2017, http://www.mei.edu/content/article/ir/an-s-recruitment-afghan-pakistani-shiites-fur-ther-destabilizes-south-asia.


\textsuperscript{17} Babak Dehghanpisheh, “Iran’s Elite Guards Fighting in Iraq to Push Back Islamic State,” Reuters, August 3, 2014,
December 2016 law passed by the Iraqi government, these militias are now officially considered a part of Iraq’s armed forces, giving the Iranian regime significant influence over Iraq’s future political direction. All told, Iran can now be said to control four separate Arab capitals: Beirut, Lebanon; Damascus, Syria; Sana’a, Yemen; and Baghdad, Iraq.

- Iran’s regime has historically served as the world’s leading state sponsor of terrorism, providing economic support to a range of radical causes. At the time of the signing of the JCPOA in the summer of 2015, the Congressional Research Service estimated that the Islamic Republic was spending between $3.5 billion to $16 billion annually on terrorism and insurgency worldwide, including bankrolling the entire operating budget of the Palestinian Islamic Jihad terrorist organization, providing tens of millions of dollars to the Hamas terrorist group, and transferring between $100 and $200 million annually to Lebanon’s Hezbollah militia. The concrete economic benefits of the JCPOA have allowed Iran to expand this sponsorship significantly. According to Middle Eastern sources, Iran has ramped up its support to Hamas in recent weeks, including the provision of as much as $27 million to the Palestinian movement. Iranian aid to Hezbollah is also believed to have ballooned to as much as $1 billion annually in recent times.

The cumulative impact of these developments is that Iran now represents “the most significant threat to the Central Region and to our national interests and the interests of our partners and allies,” in the judgment of Gen. Joseph Votel, the commander of U.S. Central Command.

**COPING WITH AN EMBOLDENED IRAN**

How can the United States better counter the expanding threat posed by the Islamic Republic? The Trump administration is currently in the midst of a comprehensive review of U.S. policy toward Iran, and that process can be expected to yield significant changes to both the way the new White House approaches both the 2015 nuclear deal and Iran’s broader activities in the Middle East. As it formulates its approach, the Administration should focus on four distinct priorities:

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20 See, for example, “Iran Extends Its Hand to Alkassam Brigades,” Al Modon, May 4, 2017, http://www.almodon.com/arabworld/2017/5/4/%D9%85%D8%B5%D8%A7%D8%AF%D8%B1-%D8%A7%D9%84%D9%82%D8%B3%D8%A7%D9%85-%D8%AA%D9%84%D9%82%D8%AA-%D9%A2%D9%A7-%D9%85%D9%84%D9%8A%D9%88%D9%86-%D8%AF%D9%88%D9%84%D8%A7%D8%B1-%D9%85%D9%86-%D8%A5%D9%8A%D8%B1%D8%A7%D9%86.


Reestablishing Economic Leverage

Perhaps the most pernicious effect of the JCPOA has been to set in motion a fundamental unraveling of the global sanctions regime against Iran. The Obama administration’s efforts in support of the agreement—including attempts to encourage greater international commerce with Iran and the assumption of a direct investment role in Iran’s nuclear program—helped to compromise the integrity of the sanctions architecture that had been painstakingly erected against the Islamic Republic over the preceding decade-and-a-half. A key future priority of the U.S. government, therefore, must be to restore the economic leverage that Washington once wielded over Tehran.

The Trump administration has far more clout to do so than is commonly understood. Since the signing of the JCPOA (and despite the Obama administration’s best efforts to encourage trade normalization with Iran), banks and other financial institutions have proven generally timid in reengaging the Islamic Republic, fearful of the potential consequences of doing so. That caution was reinforced by Mr. Trump’s election in November, and by the widespread view that his administration is prepared to apply greater economic pressure than its predecessor against both Tehran and its trading partners. However, such hesitance is not a permanent condition, and over time companies and banks can be expected to grow bolder in their pursuit of new business opportunities with the Iranian regime. As a result, the new administration needs to move resolutely to enact measures (such as the blacklisting of Iranian individuals and entities suspected of illicit activity, and the levying of onerous fines on those doing business with them) which send a clear signal that it will not condone a return to “business as usual” with the Islamic Republic. As of last week, it appears to have begun this process.

Perhaps the most promising step that can be taken in this regard is a comprehensive blacklisting of Iran’s clerical army, the Islamic Revolutionary Guard Corps (Sepāh-e Pasdārān-e Enqelāb-e Eslāmi, IRGC). That idea, floated in the early days of the Trump administration, deserves a serious second look by both the White House and Congress. This is because the IRGC is an economic powerhouse, in control of a sprawling empire of companies and corporate entities within the Islamic Republic. All told, the IRGC is believed to command as much as one-third of the country’s total economy. As a result, a comprehensive designation would have a profound impact, rendering large swathes of the Iranian economy (such as its construction and telecom sectors) radioactive as a matter of trade policy, and thereby helping prevent a further normalization of international trade with Iran. Of equal significance,

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24 Gillian Tett, “Banks Cannot Invest in Iran Without US Guarantees,” Financial Times, August 26, 2016, [https://www.ft.com/content/f7da16c-69f3-11e6-a5b-a7cc5dd5a28c](https://www.ft.com/content/f7da16c-69f3-11e6-a5b-a7cc5dd5a28c).  
a ban would send a major warning to international firms and foreign nations now beginning to dip their toes back into the Iranian market that, if they continue to do so, they are in danger of running afoul of U.S. counterterrorism laws, with potentially disastrous monetary and political consequences.

**Ensuring Compliance**

While the abrogation of the JCPOA emerged as a major campaign issue during the 2016 election, it is increasingly clear that the Trump administration will continue to abide by the terms of the agreement, at least for the foreseeable future. There are practical reasons for this; the multilateral nature of the JCPOA means that a U.S. withdrawal from its terms would not automatically trigger its collapse, and a meaningful rollback of the deal may not be possible without provoking major trade disputes with counties such as China and France—something which the Trump administration, despite its commitment to a more coercive Iran policy, is nonetheless eager to avoid. As a result, the new Administration is likely to remain within the confines of the JCPOA in the near term, even while it attempts to significantly adapt and strengthen its provisions and penalties.

There is a great deal that must be done in this regard. During its time in office, the Obama administration proved loathe to hold the Iranian regime accountable for substantive breaches of the accord itself, or for related activities (such as ballistic missile testing) that violated its spirit. The Trump administration must take a more active role in tracking Iran's compliance with the terms of the JCPOA, including by ensuring the hiring and deployment of additional inspectors to Iran's nuclear facilities, and by demanding access from Iran to additional nuclear facilities not currently being monitored under the terms of the deal. The White House should also consider constructing an explicit menu of what constitutes a “material breach” of the JCPOA (and which enumerates the concrete penalties associated with such violations) as a way of eliminating ambiguities and political disputes that prompted the Obama administration to turn a blind eye to Iranian infractions in the past.

**Constraining Iranian Expansionism**

More than a year after “implementation,” there is no shortage of evidence that the benefits of the JCPOA have enabled a significant strategic expansion on the part of the Iranian regime, with concrete negative effects for regional security. For Washington, reinforcing stability in the Middle East will hinge on constraining Iran’s advances, and implementing policies that can serve to deter or counterbalance future Iranian adventurism.

One such initiative is the creation of a regional security architecture encompassing countries in the Islamic Republic's immediate periphery. Such a regional partnership would help to expand America’s relationship with the Gulf States, and transform the GCC into an operational military alliance capable of deterring the Iranian regime. Notably, movement in this direction appears to already be underway; the President’s visit to the Middle East has entailed significant efforts to erect an “Arab NATO” capable of serving, in part, as a counterweight against Iran.

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A blacklisting of the IRGC could provide benefits in this arena as well. U.S. forces have labored for years under restrictive “rules of engagement” in the Iraqi theater due to worries that battlefield contact with Iranian paramilitary elements could result in an uncontrolled escalation of hostilities between Washington and Tehran. This has hampered the effectiveness of U.S. counterinsurgency and stability operations, and continues to exert a profound effect on the freedom of action that field commanders believe they possess today. In turn, U.S. military officials have been outspoken about the destabilizing role being played by Iran in the region and about the need to push back forcefully against it. A blacklisting of the IRGC would begin that process by providing U.S. commanders with greater authority to counter Iranian destabilizing behavior on the ground throughout their area of responsibility.

Rebuilding American Credibility

Historically, and in spite of its limited ability to affect internal change, the United States has been viewed by ordinary Iranians as a champion of their struggle against the repressive, theocratic Iranian state. During its time in office, however, the Obama administration progressively ceded this moral high ground. In its pursuit of accommodation with the Iranian regime, the previous administration focused less and less upon the plight and potential of the Iranian people, and more and more on ingratiating itself with the repressive government that ruled over them, culminating in the signing of the JCPOA in 2015.

An important priority for the Trump administration, therefore, must be to reestablish the credibility of the United States in the minds of the Iranian people. This requires that the White House articulate, and then demonstrate, that it is not content with the current political status quo within the Islamic Republic. High-profile political steps, such as a comprehensive blacklisting of the IRGC, could send a potent message to Iranian and international audiences alike that the United States is no longer prepared to pursue “business as usual” with Iran’s ayatollahs. So could official messaging that focuses more intently on highlighting endemic corruption within the Iranian regime, the country’s repressive domestic practices, the Iranian regime’s failure to provide broad-based prosperity (despite the material benefits of the JCPOA), and the plight of individual political prisoners within the Islamic Republic. The goal of such messaging should be strategic: to diminish the credibility and authority of Iran’s clerical regime, and to increase that of the United States.

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